AMERICAN MEAT INSTITUTE

February 21, 2003

Country-of-Origin Labeling Program
Agricultural Marketing Service
U.S. Department of Agriculture
Room 2085-S USDA Stop 0249
1400 Independence Avenue
Washington, DC 20250-0249

Re: Country-of-Origin Labeling: Notice of Request for Emergency Approval of a New Information Collection

Dear Sir or Madam:

This letter responds to the Agricultural Marketing Service's (AMS or the agency) November 21, 2002, Notice of Request for Emergency Approval of a New Information Collection regarding country-of-origin labeling requirements. The American Meat Institute (AMI) is the nation's oldest and largest trade association representing packers and processors of beef, pork, lamb, veal, turkey, and processed meat products. Our member companies account for more than 90 percent of U.S. output of these products.

Many AMI member companies will be directly affected by mandatory country-of-origin labeling and, in that regard, costs will be incurred in two ways. First, in order to operate their meat packing and processing plants in accordance with the law, many companies will be forced to make substantial capital expenditures associated with developing recordkeeping and livestock and product segregation systems.[1] Second, companies will incur, on an ongoing basis, the costs attendant to implementing and administering those systems to ensure compliance. In response to the agency's request, AMI has developed some preliminary data regarding both types of costs. That information is provided below.

[1] Even if companies elect to dedicate plants such that those plants purchase only livestock that qualify for the statutory provision regarding "born, raised and slaughtered in the U.S.," those plants will have to employ a recordkeeping system so that accurate information can be provided to retailers, who bear the responsibility of informing consumers as to the country-of-origin of covered commodities.

**<u>Capital Expenditures For Livestock Slaughter Operations Could Exceed $2.4 Billion</u>**

For purposes of this initial discussion, capital costs are those costs attendant to installing or upgrading a system of segregating the livestock, and ultimately the products derived from those livestock, that have different national "affiliations," which will affect the labeling of products derived from those animals. Significantly, the law requires plants to employ product segregation systems so that the meat derived from an "all American" animal, *i.e.* born, raised, and processed in the U.S., is not mixed with meat requiring labeling declaring the product to be, for example, beef derived from an animal "born in the United Sates, raised in Canada and slaughtered in the U.S." [2] and similarly separate from an animal "born in Canada, raised and slaughtered in the United States." The meat from these various types of animals must be kept separate as the carcasses proceed down the line, in the coolers, as the meat proceeds through the fabrication process, as the trimmings are sent to the grinding operation, and ultimately as the, in this case beef, meat is stored for distribution.

Another capital expenditure will be development of new label configurations to accommodate the various labeling permutations that could arise. There are a number of realistic labeling permutations derived from where cattle and hogs are born, raised, and slaughtered. Those permutations, developed to advance economic efficiencies, will (1) require cattle and hog slaughter and processing plants to set up systems that separate the animals and the meat derived from those animals at the plant, (2) force plants to kill animals with different affiliations on specific shifts or specific days, which still requires segregation, or (3) force plants to kill only one "type" of animal to avoid certain segregation and labeling issues.

To accommodate the notable differences involved in how livestock are raised and processed in the United States and in North America will require significant capital expenditures by a number of plants. In that regard, capital expenditures are estimated to be as high as $50 million to reconfigure a large cattle slaughter and beef processing plant to accommodate the issues identified above. For other, somewhat smaller cattle slaughter and processing facilities, cost estimates run from approximately $20 million to $30 million per plant. USDA estimated that in 2001 there were approximately 66 cattle slaughter plants that killed 50,000 head or more. If, on average, the capital costs per plant are $20 million, the capital expenditures for those 66 facilities would total approximately $1.32 billion. As noted earlier, some companies might consider dedicating plants to the slaughter of "all American" cattle only, alleviating some of the costs related to changes to the physical plant and lessening the $1.32 billion dollar figure. Conversely, many companies will not be able to dedicate plants due to plant location, livestock supply, customer product demands, *etc*. Moreover, USDA estimated that there were

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[2] A substantial number of cattle, particularly in the Northwest, would qualify for this designation.

more than 800 plants that killed cattle in 2001. Many of those smaller plants either would have to develop segregation systems or would have livestock sources limited not by market dictates, but through an artificial means, i.e. government mandate.

Estimates of capital costs for hog slaughter and processing operations range from $12 million to $25 million. USDA estimated that in 2001 there were 55 plants that killed at least 100,000 hogs. If, on average, capital costs are $20 million for a hog slaughter plant, overall capital costs would be approximately $1.1 billion. Again, some plants might be able to be dedicated to "All American" operations but these estimates do not include the several hundred federally inspected smaller hog slaughter operations.[3]

Thus, capital expenditures to enable compliance at the larger cattle and hog slaughter and processing plants could reach $2.4 billion or more. Indeed, even if half the plants identified elect to buy only animals that may be characterized as "All American," costs could still exceed $1 billion.[4]

In addition to the capital costs that will be incurred at livestock slaughter and processing plants, there are a number of meat processing facilities that do not slaughter cattle but produce ground beef and other fresh whole muscle meat products. These facilities buy significant amounts of frozen imported beef and buy large amounts of beef trimmings from slaughter facilities.[5] Many of these plants buy imported beef and may purchase beef trimmings from between 10 and 20 suppliers. Estimates of developing a segregation system to accommodate the inputs with a vast array of labeling permutations, which is made more problematic by the requirement that for blended products the various inputs must be listed in order of predominance by weight, range from $1 to $3 million. Given the large number of federal and state inspected grinding operations that may be affected by the labeling requirements, many of them very small, it is virtually impossible at this time to provide an accurate estimate of the capital costs that might be incurred by this sector of the meat industry.

**Annual Operational Expenses Incurred By Livestock Slaughter Operations Could Exceed $350 Million**

Even after capital investments are made, plants face the ongoing costs attendant to implementing the country-of-origin labeling provisions. The statute imposes on those who provide covered commodities to retailers an obligation to provide accurate information, regardless of whether the plant only buys "All American" or elects to buy livestock or meat with different affiliations. Contrary to some assertions, the law does not allow those who process only products that qualify for born, raised and slaughtered

[3] This discussion also does include those several thousand state inspected plants, many of which likely produce covered commodities.
[4] These figures do not include costs that likely would be incurred at some lamb slaughter operations.
[5] Also significant is the fact that many slaughter plants buy trimmings from other slaughter plants in order to be able to meet customer demands. Thus, a "dedicated" slaughter plant would only be able to buy trimmings from other, similarly dedicated plants rather than having a wider array of plants from which to purchase inputs.

in the U.S. to avoid information collection responsibilities, nor does the law provide that only those products that must bear some "foreign" affiliation be identified as such. In either circumstance a recordkeeping system must be implemented and administered so that the purchaser of the covered commodity, as well as the government, can verify the labeling accuracy. In that regard, all meat packers, of every size who sell <u>or want to sell</u> a covered commodity to retailers will have to administer a recordkeeping system for country-of-origin labeling.

Estimates are that, from an operational standpoint, for a cattle slaughterer and processor it will cost at least $5 per head and maybe as much as $10 per head to provide accurate country-of-origin labeling information. These values involve not only recordkeeping, but also other costs related to segregation, additional labeling, storage, and other factors.[6] For hogs, the cost estimate is between $1.25 and $2 per head. In 2001 USDA estimated that approximately 34.7 million cattle and 96.2 hogs were killed in federally inspected plants. Assuming a cost of $6 per head for cattle and $1.50 for hogs, the operational costs, which will be incurred on an ongoing basis, are $208.2 million for beef and $144.9 million for pork – a total of approximately $353 million annually.[7] These operational costs are likely to be incurred by virtually all slaughter operations because, although some meat produced at a slaughter plant is used in products that are not covered commodities, virtually all livestock slaughter operations either sell some products to retailers <u>or would like to be able to sell to retailers</u>. Because the obligation to provide accurate information as the product's country-of-origin exists regardless of the nature of the animal, *i.e.*, "All American" or other, virtually every slaughter plant will have to have a recordkeeping and audit system.

[6] The labeling problem is compounded when the product quality factor, *i.e.* the grading system, is added to the calculus.
[7] The $353 million does not include costs attendant to approximately 975,000 veal calves slaughtered at federal plants nor the almost 3.1 million lambs slaughtered under federal inspection. This value also does not include the costs that would be borne by state inspected facilities that sell a covered commodity. State inspected plants are not exempt from providing accurate information about the country of origin of such products.

As with capital expenditures, slaughter operations are not the only meat processor that will incur operations costs. Beef grinding operations that are separate and apart from the slaughter facilities will also bear costs as they provide, for example, coarse ground beef or case ready ground beef to retailers or others in the meat distribution chain. Given the significant number of grinding operations, federally and state inspected, in operation, it is not possible at this time to provide annual operating cost information.

AMI appreciates the opportunity to provide these comments. If you have any questions about any of the above-discussed suggestions or comments, please contact me.

Sincerely,

Mark Dopp
Senior Vice President, Regulatory Affairs and
General Counsel

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